



The
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Newsletter

EyeWear

Intelligence

News and analysis of the international market

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NOVARTIS SEEKS FULL OWNERSHIP OF ALCON

Novartis is buying Nestlé's remaining shares in Alcon – a 52 percent stake – for \$180 per share, or \$28.1 billion. It also has proposed to acquire the remaining 23 percent of shares that it does not already own in exchange for shares, with the intention of merging Alcon into Novartis, but this may be an uphill fight. If Alcon's board approves the purchase of the 23 percent stake owned by shareholders other than Nestlé, they would get 2.8 shares of Novartis for each Alcon share, which would correspond to a value of only about \$153 per Alcon share, or an additional investment of about \$11.3 billion.

Novartis says that 100 percent ownership of Alcon would put an end to uncertainties among shareholders and employees of the big American ophthalmic group, in which it bought about 25 percent of the shares for \$10.4 billion in July 2008. Alcon had an operating margin of 38 percent in 2008 on sales of \$6.3 billion, compared with a margin of 22 percent of Novartis, but shareholders of the Swiss company apparently found that the price being paid to Nestlé for 52 percent of Alcon is excessive, as the company's stock price fell by 2.57 percent to 55.05 Swiss francs after the announcement.

Novartis expects annual savings of about \$300 million from its merger with the American company, which employs 15,000 people around the world. Once Alcon is fully integrated Novartis, its **Ciba Vision** division would be put under the umbrella of Alcon, forming a bigger eye care group. **Kevin Buehler** would continue in his role as president and chief executive of Alcon and would head up the new eye care unit once the merger is completed.

If the merger goes through, Novartis' new eye care unit would have a structure that would resemble that of **Bausch & Lomb** and **Johnson & Johnson**, with strong positions in contact lenses as well as contact lens solutions and ophthalmic medicine. Alcon's **Opti-Free** solutions would complement the contact lenses of Novartis' Ciba Vision subsidiary, which generate annual sales of about \$1.7 billion.

Novartis' core business is in pharmaceutical products, but this branch is increasingly attacked by generic drugs, leading to numerous mergers and acquisitions. On the other hand, Novartis' management points out that vision care has a bigger potential for future growth, estimated at between 6 and 7 percent annually through 2014, compared with 5 percent for standard pharmaceuticals.

Aside from Ciba Vision, Novartis generated a turnover of \$858 million in the first nine months of last year with **Lucentis**,

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Preliminary Opti '10 Issue

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its successful drug against age-related macular degeneration, up from \$900 million for all of 2009. Adding the vision care properties of Alcon, which is also very strong in intraocular devices and Lasik surgery, Novartis' total annual revenues from ophthalmic products would be close to \$8.5 billion.

SAFILO SELLS STORES TO HAL, REACHES DEBT DEAL WITH BANKS

Safilo has sold some of its non-core retail activities to **Hal Holding** for €13.7 million and reached an agreement with its creditor banks to reschedule for six months debt payments due at the end of 2009. Safilo has the right to repurchase the activities at a similar conditions if its recapitalization project, in Hal is due to take part, is not achieved.

More precisely, Hal Holding bought Safilo's **Loop Vision** stores in Spain, the **Just Spectacles** chain in Australia as well as the Italian group's shops in China. The businesses had estimated overall sales of about €36 million in 2009 and generated €7 million in losses at Ebitda level.

The Hal group already owns nearly 2.1 percent of Safilo and is scheduled to take part in the first quarter of 2010 in a recapitalization of the eyewear company that is worth nearly €263 million. At the end of the capital increase, Hal will be Safilo's main shareholder with a stake varying between 37.23 percent and 49.99 percent.

Safilo stressed that the price for the disposal of the retail activities was judged fair by its advisor **KPMG Advisory**. The sale leaves Safilo with 156 **Solstice** stores in the U.S. and 59 stores in Mexico under the **Sunglass Island** and **Island Optical** banners.

But, the Mexican shops are also slated to be sold to Hal. According to a previous agreement with Hal, Safilo is due to sell all non-core retail activities, which excludes Solstice, to the conglomerate for €20 million. This gives the Mexican operations a price tag of slightly more than €6 million.

In the meantime, the banks have agreed that Safilo has until June 30, 2010 to pay the installments on its senior debt that expired at the end of 2009. They have also waived the group's debt covenants that were breached last year.

NEWS BRIEFS

Rodenstock is expected to announce a new deal for **Alfred Dunhill** eyewear, the British brand owned by **Richemont Group**, which has gone through many vicissitudes. It was held by **Essilor** when it was still involved in prescription frames. It was then kept by **Luxury Eyewear International**, along with **Cartier**. **Airess** then held the license for a while until its bankruptcy. **Allison** signed a 5-year license for the brand in 2004 (*more in the regular issue*).

Gant eyewear by **Viva International** will be distributed in Italy by **Sover**, an Italian firm based in Belluno that produces and distributes various own labels and licensed brands on the domestic and international markets, including **Alviero Martini** and **Mariella Burani**. The Gant collections were previously distributed in Italy directly from Viva's European office, after a brief passage via **De Rigo** as part of a commercial exchange between the two groups, signed in 2004, after Viva closed its Italian office. The new agreement with Sover runs until 2013 with the option of renewal at the end of this period. Sover already distributes Viva brands in Russia. Viva is also looking to place two other brands – **Harley Davidson** and **Skechers** – on the Italian market. In Italy, Viva is currently dealing with the transition of the **Tommy Hilfiger** brand, which it will lose to **Safilo** as from the end of the current license this March. De Rigo still has the distribution contract for Viva's **Guess?** eyewear in Italy and Croatia and for its own chains in Spain and the UK, **General Optica** and **Dollond & Aitchison**. The latter is now merged with Boots Opticians (more in the regular issue).

Luxottica bought 682,154 of its own shares in December at an average price of €7.35 for a total outlay of €1.83 million as part of a share buy-back program decided by shareholders last Oct. 29 and launched on Nov. 16. Since the beginning of the buy-back, the company has bought 1.35 million shares at an average price of €7.27 for a total expense of €23.17 million. For its part, Luxottica's American subsidiary **Arnette Optics Illusions** has sold 1.59 million Luxottica shares since Nov. 16 at €7.18 each, raising €27.27 million. In December alone, Arnette sold 937,307 shares worth €7.27 each for €16.18 million.

Johnson & Johnson Vision Care has opened its 13th educational facility worldwide, a **Vision Care Institute**, in Moscow. J&J hopes to help train Russian eye care professionals, and help the country's industry modernize and develop.

HVHC, the vision component of **Highmark**, has entered a new credit agreement with many of its lenders, and used the loan to refinance the debts of its subsidiaries, Eye Care Centers of America (**ECCA**), **Viva International** and **Davis Vision**. This included redeeming all of ECCA's outstanding senior notes and paying off all of ECCA's debt under a credit agreement signed in March 2005. The \$400 million deal will cut down HVHC's interest payments. In addition, ECCA will no longer have to file quarterly reports with the Securities and Exchange Commission.

A.T. Cross has bought back 1.5 million of its Class A common stock from **Galal Doss**, a member of its board. The shares were worth a total of about \$5.1 million. Doss still has 2.8 million shares. A.T. Cross is the parent company of **Native Eyewear** and **Costa Del Mar** sunglasses.

Masaaki Hirata has retired as president and chief executive of **Charmant Europe** after about 17 years with the company. His successor is **Taketoshi Mizukami**, who will step up from his position as general manager of international marketing. He has been with Charmant since 1988, working in sales and marketing, product planning and development. Hirata will remain as an advisor to the company through March.

Maureen Cavanaugh has been named president of the **Nassau Lens Group**, a stock lens supplier and operator of an optical laboratory in New Jersey. Nassau Lens Group is an **Essilor** company. Cavanaugh has been with Essilor since October 2005, most recently as vice president for integrated retail. In her new position, she replaces **Francois Bes de Berc**, who has moved over to be general manager for the Asia-Pacific division of **Transitions Optical**, a company co-owned by Essilor and **PPG Industries**. This position was previously held by **Paul Peiffer**, who has been named director of strategic growth for Transitions.

The Euro Jan. 11 rates

Czech Koruna	26.20
Danish Krone	7.441
Hungarian Forint	266.7
Norwegian Krone	8.139
Polish Zloty	4.053
Pound Sterling	0.899
Swedish Krona	10.20
Swiss Franc	1.476
U.S. Dollar	1.453
Canadian Dollar	1.493
Japanese Yen	134.2
Russian Ruble	42.63
Chinese Yuan	9.917

Marshall Post is the new president of the **I/Optics** division of **New Millennium Eyewear**. He comes from **Twinlab**, a nutritional supplement company, where he was vice president for marketing. His experience in the industry includes a stint as marketing director at **Viva International**. I/Optics distributes **Vanni Eyewear** from Italy and its **Derapage** collection in the U.S.

Some new directors have joined the **Federation of Manufacturing Opticians (FMO)** in the U.K. **Preston Everard**, the executive manager of **Kentoptic**, is the vice chairman of the Lens Association. **Keith Sheers**, the managing director of **Optisoft**, is the new vice chairman of the Equipment Association. And **Gary Goulden**, the managing

director of **Olympus Eyewear**, has been named vice chairman of the Frame Association.

Because of a number of requests from customers, particularly young men, **Vision Express** in the U.K. is going to start selling monacles. The £50 (€55.50-\$80.60) product will come with a carrying pouch and a chain, and will first be sold in London. The company will expand sales to other stores throughout the U.K. if it proves successful.

CORRECTION: **Oakley** is not among the 35 eyewear producers using **NXT** lenses.

WHICH VISION CARE MARKET WILL COME OUT OF RECESSION FIRST – EUROPE OR THE USA?

To make this comparison, **Strategy with Vision (SWV)**, the international German-based consultancy run by **Mark Mackenzie**, analyzed the drivers of vision correction for the six largest vision care markets in Europe: France, Germany, Italy, Spain, The Netherlands and the U.K. (referred to from here as the Top 6) and compared them with the USA.

The first part of this article (published here) looks at the drivers of vision correction. In the second half (due to be published at the end of January 2010), individual markets and product segments will be analysed. In addition, SWV will be visiting OPTI show taking place in Munich later this week, where an attempt will be made to gather information, at first hand, on how the year has started.

The drivers of vision correction are:

- The size, buying power and growth of the population
- The age of the population
- The repeat purchase cycle.

In terms of size, the total population of the Top 6 in Europe is slightly larger than the USA. In terms of Total Gross Domestic Product (GDP) the USA is slightly larger. Unemployment has reached 10% of the working population in both economic areas. However, unemployment has been rising faster in Europe than in the USA.

The total population of the Top 6 is estimated to be 330 million right now. This compares to an official estimate for the USA of 310 million. The population of the Top 6 will grow by 1.1 million per year between 2010 and 2013. In the USA, the forecast rate of growth is higher. It is estimated that the population will increase by 3 million per year.

An ageing population The average age of the Top 6 is estimated to be 41 in 2010, growing to 42 years in 2013. The USA has a younger population. Here, the average age is estimated to be 37 years, due to grow to 37.5 by 2013. There will be a rise in the number of people potentially affected by presbyopia (aged 45 and over). In the Top 6, the total number of people aged 45 or older will grow from 148 million in 2010 to 154 million in 2013. In the USA, the comparative figures will grow from 121 million to 127 million.

These figures translate into a population using vision correction in the Top 6 of 186 million, in 2010, growing to 189 million by 2013. The corresponding figures for the USA are 197 million for 2010, growing to 203 million by 2013.

It is strange to see a larger population of people using vision correction in the USA, although official statistics indicate a younger population as well as a smaller number of potential presbyopes. **VisionWatch** publishes data by age band for people needing and using vision correction. SWV compared this information with data published by the **Kuratorium Gutes Sehen** in Germany. Both institutes have run long-term surveys using large sample sizes. In order to make comparisons, SWV took the number of people who claimed to wear spectacles in the two surveys and found similarities in the 45-60 age group: about 70% of the population use spectacles in both countries. It is in the 30-45 age group where there is a marked difference between the two sets of data: In the USA, about 50% wear spectacles compared with 40% in Germany.

Recently, the **Vision Care Institute of Johnson and Johnson** released some very interesting data on vision correction amongst children. The definition of a child was a person under the age of 18. This is significant, as U.S. **Vision Council** data measure the population aged 18 and older. Here, there are no significant differences between the USA and the average for Europe. In the USA, 19% of children were estimated to use vision correction. In Europe, the figure varied from 28% in Italy to 13% in the U.K.

The repeat purchase cycle for spectacle lenses in the USA is lower than in Europe. SWV estimates that the repeat purchase cycle - the interval between purchases of a new pair of spectacles - will be 2.5 years for the USA in 2010. This is based on a calculation that the total number of ophthalmic lenses sold to retail opticians in the USA will be 159 million lenses in 2010. The SWV forecast is that the repeat purchase cycle will increase to 2.6 years there by 2013.

For Europe, SWV estimates the repeat purchase cycle for the Top 6 at 2.7 years in 2008, based on total sales of 146 million ophthalmic lenses. The repeat purchase cycle should peak in 2010 at 2.9 years and the decline, down to 2.7 years in 2013.

Conclusion: The fundamental drivers of vision care are robust. The population of the USA will grow by 9 million between 2010 and 2013. The population of the Top 6 in Europe will increase by 3 million. The number of potential presbyopes will increase by a similar figure in the USA and in Europe. The repeat purchase cycle will grow slightly in the USA.

Based on these figures alone, the vision care market in the USA should come out of its recession first.

SHORT STOPS

Optical Shop International has moved its European headquarters to Lugano, Switzerland, and opened a new distribution center in Amsterdam +++ **PixelOptics** and **Panasonic Shikoku Electronics** plan to launch their electronic dynamic lenses in the second half of 2010 (*more in the regular issue*) +++ **Mary Pace** has left **Optical Shop International**, where she was taking care of the European market (*more in the regular issue*) +++ The American organization **Healthy Eyes for Life Foundation** has changed its name to the **Foundation for Eye Health Awareness** +++ **Revo** is the supporting partner and exclusive eyewear provider for **Summit on the Summit**, an expedition of Mount Kilimanjaro done for charity +++ **Oakley** will donate \$20 from the sale of each pair of two special-edition sunglasses to **Talk About Curing Autism**, a support and educational group in the U.S.....and more in the next regular issue....

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